

WELLSPRING LIVING, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

With Independent Auditor's Report Thereon



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Wellspring Living, Inc.

We have audited the accompanying financial statements of Wellspring Living, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wellspring Living, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink, appearing to read "T. A. Kozak".

Morrow, Georgia  
January 3, 2017

WELLSPRING LIVING, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2016 AND 2015

ASSETS		
	2016	2015
<b>CURRENT ASSETS</b>		
Cash	\$ 135,886	\$ 671,023
Accounts receivable	87,026	165,883
Contributions receivable	43,998	4,590
Inventories	25,604	28,462
Prepaid expenses	<u>14,127</u>	<u>18,980</u>
<b>TOTAL CURRENT ASSETS</b>	<b>306,641</b>	<b>888,938</b>
<b>FIXED ASSETS</b>		
Land	150,000	150,000
Building and improvements	677,360	677,360
Leasehold improvements	835,465	808,434
Machinery and equipment	67,001	54,349
Vehicles	150,830	150,830
Less: accumulated depreciation	<u>(617,122)</u>	<u>(535,551)</u>
<b>TOTAL FIXED ASSETS</b>	<b>1,263,534</b>	<b>1,305,422</b>
<b>OTHER ASSETS</b>		
Other assets	<u>17,492</u>	<u>9,600</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,587,667</u></b>	<b>\$ <u>2,203,960</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 77,352	\$ 84,689
Accrued salaries and wages	191,323	132,891
Notes payable – current portion	597,241	44,584
Line of credit	35,000	35,000
Sales tax payable	5,234	3,416
Accrued interest	<u>5,566</u>	<u>1,613</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>911,716</b>	<b>302,193</b>
Notes payable – long-term	<u>-</u>	<u>592,730</u>
<b>TOTAL LIABILITIES</b>	<b>911,716</b>	<b>894,923</b>
<b>NET ASSETS</b>		
Unrestricted	590,739	740,637
Temporarily restricted	<u>85,212</u>	<u>568,400</u>
<b>TOTAL NET ASSETS</b>	<b><u>675,951</u></b>	<b><u>1,309,037</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>1,587,667</u></b>	<b>\$ <u>2,203,960</u></b>

*The accompanying notes are an integral part of these financial statements.*

WELLSPRING LIVING, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS AND OTHER SUPPORTS		
Donations	\$ 2,070,670	\$ 2,272,363
Service revenue	541,626	718,601
Fundraisers	341,589	386,389
Less direct benefit to donors	(21,412)	(34,167)
In-kind donations	74,836	71,779
Interest revenue	392	-
Loss on disposal of fixed asset	-	(50)
Other revenue	(1,745)	11,987
Net assets released from restriction	<u>558,188</u>	<u>-</u>
Subtotal revenues, gains and other supports	3,564,144	3,426,902
Thrift store sales	684,890	687,207
In-kind contributions - thrift stores	<u>334,147</u>	<u>343,131</u>
Subtotal thrift store revenue	<u>1,019,037</u>	<u>1,030,338</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORTS	4,583,181	4,457,240
EXPENSES		
Program activities	3,086,843	2,901,876
Thrift stores	973,602	894,077
Management and general	260,214	257,392
Fundraising	<u>412,420</u>	<u>410,721</u>
TOTAL EXPENSES	<u>4,733,079</u>	<u>4,464,066</u>
NET CHANGE IN UNRESTRICTED NET ASSETS	(149,898)	(6,826)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted contributions	75,000	568,400
Net assets released from restriction	<u>(558,188)</u>	<u>-</u>
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(483,188)</u>	<u>568,400</u>
CHANGE IN NET ASSETS BEFORE ITEMS UNUSUAL IN NATURE OR OCCURRING INFREQUENTLY	(633,086)	561,574
ASSET IMPAIRMENT	<u>-</u>	<u>(553,913)</u>
TOTAL CHANGE IN NET ASSETS	(633,086)	7,661
NET ASSETS AT BEGINNING OF YEAR	<u>1,309,037</u>	<u>1,301,376</u>
NET ASSETS AT END OF YEAR	<u>\$ 675,951</u>	<u>\$ 1,309,037</u>

*The accompanying notes are an integral part of these financial statements.*

WELLSPRING LIVING, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2016

	Program activities	Thrift stores	Management and general	Fundraising	Totals
Salaries and wages	\$ 1,825,847	\$ 313,107	\$ 122,388	\$ 140,179	\$ 2,401,521
Client assistance	347,878	24,602	11,266	19,429	403,175
Cost of sales	-	341,886	-	-	341,886
Professional fees	136,567	1,494	18,371	74,462	230,894
Payroll taxes	170,969	28,495	8,768	10,960	219,192
Rent	2,416	174,773	23,128	-	200,317
Benefits	151,005	5,666	14,882	8,928	180,481
Utilities	85,902	45,491	15,056	-	146,449
Fundraising	28,863	-	-	67,347	96,210
Advertising and promotions	32,804	3,492	2,150	52,638	91,084
Insurance	77,596	1,728	10,991	-	90,315
Depreciation	75,112	-	6,459	-	81,571
Repairs and maintenance	66,670	2,457	4,330	-	73,457
Supplies	31,328	8,471	5,582	896	46,277
Bank charges	297	19,307	1,243	23,248	44,095
Interest	31,935	-	2,733	-	34,668
Travel and transportation	6,836	716	4,553	6,023	18,128
Office expenses	10,638	41	365	5,081	16,125
Contract labor	-	1,242	7,949	3,229	12,420
Other store expenses	3,595	634	-	-	4,229
Taxes and licenses	585	-	-	-	585
<b>TOTAL EXPENSES</b>	<b>\$ 3,086,843</b>	<b>\$ 973,602</b>	<b>\$ 260,214</b>	<b>\$ 412,420</b>	<b>\$ 4,733,079</b>

*The accompanying notes are an integral part of these financial statements.*

WELLSPRING LIVING, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2015

	Program activities	Thrift stores	Management and general	Fundraising	Totals
Salaries and wages	\$ 1,663,762	\$ 247,649	\$ 159,498	\$ 180,393	\$ 2,251,302
Client assistance	266,562	25,574	22,455	16,233	330,824
Cost of sales	-	337,053	-	-	337,053
Professional fees	80,149	10,652	10,968	23,233	125,002
Payroll taxes	170,320	24,019	13,102	10,918	218,359
Rent	-	146,602	6,750	-	153,352
Benefits	152,293	4,314	8,175	21,198	185,980
Utilities	76,162	44,571	13,484	-	134,217
Fundraising	24,888	-	-	74,665	99,553
Advertising and promotions	29,352	4,962	913	52,193	87,420
Insurance	36,855	1,500	8,641	-	46,996
Depreciation	114,413	-	4,472	-	118,885
Repairs and maintenance	116,986	5,181	-	473	122,640
Supplies	89,217	10,265	-	1,762	101,244
Bank charges	4,382	17,580	92	20,604	42,658
Interest	36,504	-	3,675	-	40,179
Travel and transportation	3,789	1,308	4,297	3,878	13,272
Office expenses	14,729	-	839	5,171	20,739
Contract labor	17,892	12,433	-	-	30,325
Other store expenses	3,037	414	-	-	3,451
Taxes and licenses	584	-	31	-	615
<b>TOTAL EXPENSES</b>	<b>\$ 2,901,876</b>	<b>\$ 894,077</b>	<b>\$ 257,392</b>	<b>\$ 410,721</b>	<b>\$ 4,464,066</b>

*The accompanying notes are an integral part of these financial statements.*

WELLSPRING LIVING, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (633,086)	\$ 7,661
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	81,571	118,885
Loss on disposal of fixed assets	-	1,493
Asset impairment	-	553,913
Non-cash inventory contributions	2,858	(6,725)
Decrease (increase) in operating assets		
Accounts receivable	78,857	(30,544)
Contributions receivable	(39,408)	(4,445)
Prepaid expenses	4,853	(16,688)
Deposits	(7,892)	-
Other assets	-	3,450
(Decrease) increase in operating liabilities		
Accounts payable	(7,337)	19,085
Accrued salaries and wages	58,432	38,449
Other accrued expenses	3,953	(432)
Sales tax payable	<u>1,818</u>	<u>1,140</u>
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<u>(455,381)</u>	<u>685,242</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<u>(39,683)</u>	<u>(194,789)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(39,683)</u>	<u>(194,789)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of loans	<u>(40,073)</u>	<u>(58,954)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(40,073)</u>	<u>(58,954)</u>
<b>NET CHANGE IN CASH</b>	(535,137)	431,499
<b>CASH AT BEGINNING OF YEAR</b>	<u>671,023</u>	<u>239,524</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 135,886</u>	<u>\$ 671,023</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Cash paid for interest	<u>\$ 27,982</u>	<u>\$ 36,936</u>
Non-cash receipt of inventory	<u>\$ 334,147</u>	<u>\$ 343,131</u>

*The accompanying notes are an integral part of these financial statements.*

WELLSPRING LIVING, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

**1. Nature of business**

Wellspring Living, Inc. ("Wellspring") was incorporated on March 22, 2001 under the name of Wellspring of Living Water, Inc. as a not-for-profit corporation in Georgia dedicated to communicating hope in Jesus Christ, connecting the unchurched with the body of Christ, and celebrating the unity in Christ with the women of Atlanta.

On May 20, 2005, the Organization amended their Articles of Incorporation to change their name to Wellspring Living, Inc. The name change was submitted to the Georgia Secretary of State and was made official as of May 23, 2005.

**2. Summary of significant accounting policies**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Wellspring Living, Inc. classifies its net assets and revenues and expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Wellspring and changes therein are classified and reported as follows:

Unrestricted net assets – net assets not subject to donor imposed restrictions

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of Wellspring and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are reported.

Cash and cash equivalents

For financial statement purposes, highly liquid investments with original maturities of three months or less when purchased are reported to be cash equivalents. For years ended June 30, 2016 and 2015, Wellspring had no cash equivalents.

WELLSPRING LIVING, INC.  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

**2. Summary of significant accounting policies – continued**

Financial instruments

The financial instruments shown as assets and liabilities on the statements of financial position are traditional in nature. The carrying value of cash and cash equivalents and all other financial instruments, including receivables and payables, approximate their fair value.

Inventory

Inventory represents donated items, carried at estimated fair value at the time of receipt, in the form of clothing, household items, furniture, etc. that are held for resale at Wellspring's thrift stores.

Property and equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Wellspring currently uses a capitalization threshold policy of \$1,000. Substantial betterment to property is capitalized and repairs are expensed as incurred. Property and equipment are depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the applicable lease term. The estimated fair market values of the various contributions of used furniture and items for the home fall under the capitalization limit and are therefore not capitalized and not recorded as revenue.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ materially from those estimates.

Revenue recognition

Revenues from Wellspring's thrift stores are generated from the sale of donated items. Donated items have been reflected as revenue in the accompanying financial statement at their estimated fair value at date of receipt.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between program activities and management and general expenses.

WELLSPRING LIVING, INC.  
NOTES TO THE FINANCIAL STATEMENTS – Continued

**2. Summary of significant accounting policies – continued**

Income taxes

Wellspring is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “IRC”) whereby only unrelated business income, as defined by Section 512(a)(1) of the IRC is subject to federal income tax. Wellspring is also a nonprivate foundation under 509(a)(1) of the IRC. Wellspring had no income from unrelated activities and has no income taxes due as of June 30, 2016.

Wellspring’s application of ASC 740 regarding uncertain tax positions had no effect on its financial position as management believes Wellspring has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit tax status. Wellspring would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. Wellspring is no longer subject to examination by federal, state or local tax authorities for periods before 2013.

Non-cash contributions

Contributed services are reflected on the financial statements at the fair value of the services received. The contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing such skills and would typically be purchased if not provided by the donation.

Contributed services, materials, thrift store inventory and silent auction items are reflected as contributions on the accompanying financial statements at their estimated fair values at the date of receipt. In-kind contributions were \$370,373 and \$393,680 for the years ended June 30, 2016 and 2015. In-kind services were \$38,610 and \$21,230 for the years ended June 30, 2016 and 2015.

Upscale thrift stores

Wellspring Living operates four upscale thrift stores in the metro Atlanta area. Wellspring Living operates the thrift stores as an integral part of the mission of the organization. The stores are used to provide employment training and employment for its clients and graduates, to provide clothing and furniture for its clients, as a place to hold therapy and training classes, as an outreach center for the community and finally as a source of income.

**3. Line of credit**

Wellspring Living, Inc. has a line of credit with United Community Bank in the amount of \$35,000 with an interest rate of 5.50%. The line is secured by property, accounts receivable, inventory, and improvements. The line of credit will expire on January 12, 2017. The outstanding balance on this line of credit as of June 30, 2016 and 2015 was \$35,000 and \$35,000.

WELLSPRING LIVING, INC.  
NOTES TO THE FINANCIAL STATEMENTS – Continued

**4. Leases**

The Organization leases warehouse and commercial space for the Wellspring stores. Minimum future rental payments under non-cancelable operating leases have remaining terms in excess of one year as of June 30, 2016. The minimum future rental payments for each of the next five years and in the aggregate are shown below. The future minimum lease payments under the terms of the agreement are as follows:

<u>June 30</u>	
2017	\$ 196,386
2018	183,414
2019	130,389
2020	44,808
2021 and thereafter	<u>58,853</u>
Total	<u>\$ 613,850</u>

Total rent expense incurred for the twelve months ended June 30, 2016 and 2015 was \$200,317 and \$153,352.

**5. Debt**

The following is a detail of the note for the women's home and its due date:

<u>Holder and Terms</u>	<u>Collateral</u>	<u>Total</u>
United Community Bank, Interest @ 5.50%, 60 months of \$6,135 due 03/10/17	Women's Home	\$ <u>597,241</u>
	Total debt	\$ <u>597,241</u>

Obligations under debt for the next five years are as follows:

<u>June 30</u>	
2017	\$ <u>597,241</u>
	<u>\$ 597,241</u>